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UNCLAS SECTION 01 OF 03 ASMARA 000379

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C O R R E C T E D C O P Y added sensitive caption

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TAGS: [EAIR](#) [ATRN](#) [ASEC](#) [CASC](#) [EFIN](#) [ECON](#) [ER](#)
SUBJECT: ERITREAN AVIATION: GOVERNMENT SQUEEZING THE
AIRLINES

REF: ASMARA 345

ASMARA 00000379 001.4 OF 003

¶1. (SBU) SUMMARY: The four international airlines serving Asmara are discouraged by the Eritrean government's (GSE) refusal to allow them to convert \$20 million worth of local currency and its repeated attempts to gouge them for hard currency. The GSE, through its wholly owned Eritrean Airlines, has raised airport handling fees to nearly quadruple the rate for comparable airports in Africa. The GSE also will not allow the airlines to purchase fuel in Asmara, lowering their carrying capacity and thus their profitability. If the GSE continues the pressure on the international airlines, they may eventually pull out, leaving few safe and dependable options for travel to Eritrea. The two domestic airlines are not profitable and rely on charters to stay in business. END SUMMARY.

AIRLINES AND AIRPORTS

¶2. (SBU) Five airlines currently offer commercial service to Asmara International Airport (ASM). No commercial service is available by any carrier to any other airport in Eritrea. Lufthansa, which is post's supplier of medevac, evacuation, repatriation, pouch, and courier services, flies from Frankfurt via Jeddah three days per week. EgyptAir flies four days per week to Cairo between June and October, three days per week all other months. Yemenia flies twice a week to Sanaa. Sudan Airways resumed flights to Asmara in May 2009 with direct flights twice a week to Khartoum via Kasala, Sudan. Nasair, a private Eritrean carrier that started in November 2006, offers six flights per week to Dubai, Jeddah, Khartoum, Cairo, and Nairobi. Eritrean Airlines no longer runs commercial flights though it has resumed charter

flights.

13. (SBU) Although Massawa sports a new state-of-the-art international airport, it is not yet open for commercial operations. Local industry insiders state that this is largely due to the lack of business in the Massawa Free Zone.

In June 2008, twelve chartered EgyptAir flights brought 1,200 Eritrean deportees back from Egypt and landed at Massawa, most likely to avoid attention. Nasair opened its operations November 2006 in Massawa, but has temporarily moved headquarters back to Asmara until Massawa opens for commercial operations. There have been reports the GSE may try to make Massawa Eritrea's primary international airport, perhaps as soon as 2012.

Eritrean Airlines: It's All About Hard Currency

14. (SBU) Eritrean Airlines opened for business in 1998, "not for profit but because we wanted to have a way in and out of the country," according to its Chairman of the Board. Now \$11 million in debt, the airline is attempting to restore profitability by leasing its sole aircraft, a 767 purchased from Qantas for \$3 million, for charter flights to Sudan and Saudia Arabia. The airline's chairman states that the airline hopes to lease another plane, a 737 or an A-320, to resume commercial operations, possibly to Karachi or Lahore (through Dubai), Rome or Milan (through Cairo), and Nairobi (through Khartoum). Eritrean Airlines has a monopoly on handling operations at ASM (reftel). In a blatant, and at least partially successful, attempt to soak the international carriers for hard currency, Eritrean Airlines raised handling rates to now quadruple the industry average in Africa. All airlines but Lufthansa have agreed to pay the 25% increase in fees.

ASMARA 00000379 002.4 OF 003

15. An embassy contact who is well-connected to the travel industry told us that Eritrean Airlines is interested in establishing a code-share with Kenya Air to use landing rights it still has in Milan, Rome, and Frankfurt. Kenya Air flights would stop in Asmara en route to those cities. The key questions would be if Kenya Air would have to accept fare payment in nakfa-- and wind up in the same position as other international airlines, and whether the deal would be politically palatable to the GSE, given Kenya's AU and IGAD votes in favor of sanctions on Eritrea.

The Upstart Nasair

16. (SBU) Nasair, is named for its Eritrean owner Nasriddin Ibrahim, who is resident in Dubai. Educated in the United States, Nasriddin began his career there as an aircraft broker. Nasair has the most convenient service to Nairobi (through Khartoum), flying a 737-200 aircraft holding 108 passengers. The airline's break-even point is 45 passengers per flight, but usually has about 50. It also operates profitable charter flights from West Africa to Saudi Arabia for Muslim pilgrims. Its marketing targets ex-pat Eritreans living and working in the Gulf States.

Worthless Nakfa, the Bane of the Airlines

17. (SBU) Most passengers originating in Asmara pay for their tickets in Eritrean nakfa, but the international carriers have few nakfa expenses. As a result, the big three (Lufthansa, EgyptAir, and Yemenia) together have an ever-increasing pile of nakfa, now worth nearly \$20 million, that they have been unable to repatriate. Lufthansa and Yemenia both state that they would not be surprised if their corporate offices pulled the plug on operations in Asmara at any moment. EgyptAir dismisses this thought, though its country manager claims its share of the nakfa pile is \$7

million. Should any international airline close up shop, they would likely be unable to repatriate their nakfa holdings. An Eritrean government official recently told one airline manager that it might be possible to repatriate earnings in hard currency once Bisha gold mine comes on line in 2011.

More Frustrations

18. (SBU) The Eritrean government's (GSE) treatment of international carriers ranges from neglect to coercion and bullying. Earlier this year, Lufthansa's country manager got into a dispute with the GSE over enforcement of Lufthansa's safety regulations. Ultimately the GSE refused to renew the manager's work permit and tried to dictate who her replacement would be. The GSE also tried to force Lufthansa to provide passenger service between Jeddah and Asmara (currently no passengers may embark in Jeddah inbound to Asmara nor disembark there from Asmara). Lufthansa successfully resisted the pressure over concerns that more Eritreans would try to use the stop to claim asylum. Also, the GSE held up airport access for EgyptAir's new airport manager for months. Yemenia has had no response to its long-standing request to increase its flights from twice per week to daily. Nasair has historically received pressure from the GSE not to compete on the same routes as Eritrean Airlines, but the issue is currently moot. Should Eritrean Airlines re-open commercial routes, Nasair's marketing manager has stated it would agree to different routes.

19. (SBU) Eritrean Airlines also short-changes the

ASMARA 00000379 003.4 OF 003

international carriers by reserving the small amount of fuel available in Asmara for its own and Nasair's use. The unavailability of fuel means international carriers cannot fly full loads in or out of Asmara, since they cannot refuel here. As a result, EgyptAir usually flies with 40 empty seats per flight. Yemenia flies a larger aircraft than it would prefer to in order to handle distance or weight emergencies. Post periodically does not receive its pouch on Lufthansa because weight is limited on its flight. Airlines already struggling to make a profit on their Asmara flights cannot fill their aircraft even when demand is high.

Asmara: Is it Safe to Fly Here?

110. (SBU) Lufthansa is widely reputed to be the safest airline serving Asmara. It brings its own mechanic on every flight and does not subcontract maintenance to Eritrean Airlines. It performs its own weight and balance calculations for every flight leaving ASM, unlike all the other carriers. Nasair lies at the other end of the safety spectrum. Its aircraft are leased "wet" (with flight crew) from Max Avia, a Kyrgyz Republic-based company that is blacklisted by the European Union due to poor oversight by the Kyrgyz civil aviation authority. Although EgyptAir is a new member of the Star Alliance, it currently faces similar blacklisting by the EU if it does not address serious concerns noted by the EU regarding airworthiness, maintenance, operations, and safety of cargo on board. The Air Transport and Intelligence news published a report in July 2009 stating that in 75 inspections of EgyptAir since January 2009, 240 safety incidents were noted, including 69 deemed serious. Many ex-pat residents of Asmara enjoy flying EgyptAir, as it is cheaper than Lufthansa and not as strict in applying baggage weight standards. EgyptAir's country manager claims its maintenance facility is the best in the Middle East, and that that 40 European airlines subcontract their maintenance to them in Cairo. In June, Yemenia experienced its first catastrophic crash of an A310 off the coast of the Comoros Islands, which killed 152 of 153 onboard. Sudan Airways flies a 30-passenger Fokker 50 twin engine aircraft to Asmara and is locally reputed to be

unsafe. The airline is planning to acquire an A320 to carry up to 140 passengers per flight into ASM. The country manager says its pilots train and maintain their qualifications overseas in London, Riyadh, and Doha.

¶11. (SBU) COMMENT. The inhospitable business climate may soon leave fewer safe and dependable options for travel to Eritrea. The situation is not likely to improve in the near future, as economic conditions continue to deteriorate throughout the country. The GSE will continue to find creative ways to generate hard currency as it does now through airport handling fees. International carriers are caught in a difficult situation: if they pull out, they cannot repatriate earnings in hard currency. If they stay, they will continue to struggle to maintain profitability.
McMULLEN